

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS 53
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

April 10, 2001

FROM: WILLIAM H. RANDOLPH
County Administrative Officer

**SUBJECT: SELECTION OF AMERICAN INSURANCE ADMINISTRATORS AS THIRD
PARTY ADMINISTRATOR OF HEALTH AND EMPLOYEE CLAIMS**

RECOMMENDATIONS:

1. Approve selection of American Insurance Administrators (AIA) as Third Party Administrator (TPA) to adjudicate health claims of Arrowhead Regional Medical Center's (ARMC's) public service programs and County employees' claims for three (3) vision care plans, the Dependent Care Assistance Program (DCAP), and the Exempt Employees Medical Reimbursement Plan.
2. Direct staff to prepare a contract with American Insurance Administrators, to be effective for a three-year period, with the beginning effective date to be the date the Board approves the contract.
3. Direct staff to coordinate the transition of services from Arrowhead Health Administrators (AHA) to American Insurance Administrators (AIA).

BACKGROUND INFORMATION: On April 18, 2000, the Board approved a Request for Proposal (RFP) for TPA services in order to seek qualified and experienced companies capable of providing administrative support for medical utilization review and claims adjudication services for various health and employee benefit claims. This RFP was sent to eleven (11) third party administrative firms in California with three (3) responding and the remaining declining to submit proposals. The three (3) responding firms were Arrowhead Health Administrators, a Joint Powers Authority in San Bernardino; American Insurance Administrators from Los Angeles; and USI Administrators from Riverside. AHA, since 1988, has been the provider of third party administrative services to the County.

A RFP Evaluation Committee of five (5) members was established by the County Administrative Office, with one representative each from Arrowhead Regional Medical Center, Human Resources, Auditor/Controller-Recorder, Human Services System Administration, and Riverside County Human Resources. The evaluation process consisted of three phases:

1. Rating the financial strength of each firm.
2. Comprehensive technical review of each proposal and presentation by each firm to the committee regarding proposed fees, claims experience, customer service, system reporting capabilities, and adaptability to the county's changing third party administrative services needs and requirements.
3. On-site visits.

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Each Committee member conducted an independent and confidential evaluation by applying numerical ratings to the responses provided by each proposing firm.

The final ratings were unanimous in selecting AIA as providing the county with the best overall proposal. The major reasons stated in written summaries by each committee member included a superior automated system; flexibility and reporting capabilities; estimated savings of over \$1,000,000 by ARMC in TPA fees over a period of three (3) years; and increased availability of financial and statistical reports to Human Resources.

Transition from AHA to AIA: The following issues should be addressed before the transition of TPA services from AHA to AIA takes place.

1. Contracting with American Insurance Administrators for third party administrative services will result in the closing of Arrowhead Health Administrators. Arrowhead Health Administrators currently has a seven (7) month prior-notice termination clause in its contract with its claims adjudication system software vendor. As the software lease payments are a substantial monthly cost to Arrowhead Health Administrators, it is recommended that the Arrowhead Health Board of Directors notify AHA's software vendor as soon as possible regarding the closing of AHA. American Insurance Administrators reports they will need three to four months of preparation time before beginning the processing of County claims. Human Resources' past experiences with similar system conversions have resulted in delays that nearly double the estimated time needed for development, testing, and implementation. Subsequently, a realistic implementation target month for moving the County's current TPA services from Arrowhead Health Administrators to American Insurance Administrators is August 2001.
2. The claims processing for the County's Short-Term Disability plans will need to be assumed by Human Resources and managed by the Employee Health and Productivity (EHaP) Program Section. With the 1998 implementation of the County's new Employee Management and Compensation System (EMACS), Arrowhead Health was provided limited access to EMACS for processing Short-Term Disability claims. This significantly improved the timely and accurately processing of employees' claims. Since Arrowhead's Board is comprised predominately of County employees with annual audit oversight by the Auditor/Controller-Recorder, and is located next to the EMACS Team in the County's Hall of Records, providing Arrowhead Health access to EMACS has been productive and cost effective. It would not be prudent or advisable; however, to provide access to the County's highly complex and confidential HR/Payroll system to a third-party administrator that has no County representation in its management nor County audit oversight. The annual administrative fees currently paid to Arrowhead Health for Short-Term Disability claims processing is approximately \$240,000. When Human Resources assumes the claims processing functions for these plans, the cost savings generated by eliminating Arrowhead's administrative fees will more than offset the costs of adding two claims processors and the purchase of supporting software for the 2001/2002 Budget Year.

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3. Human Resources and ARMC will be required to transfer and store their claims processing records currently housed by Arrowhead Health for at least seven (7) years. In addition, the Medicare Secondary Payor requirements of the federal Health Care Financing Administration (HCFA) require that claims data for the County's defunct Flex-Med Health Plan will have to be maintained beginning with 1989 through the Plan's last claims' payments made in 1997. The potential cost of storing and maintaining this vast amount of data and claims forms in a retrievable manner may be considerable. An evaluation of these requirements and their estimated costs for Human Resources and ARMC should begin as soon as possible.

The above transition impacts are those that have been identified to date. There may be more that have yet to be identified. Subsequently, it is advisable that both ARMC and Human Resources begin working with American Insurance Administrators and Arrowhead Health Administrators as quickly as possible so that the transition of TPA services can be completed with as little disruption and as cost effectively as possible.

The committee's final recommendation is on file with the Clerk of the Board.

REVIEW BY OTHERS: This agenda item has been reviewed as to legal form by Deputy County Counsel W. Andrew Hartzell, ARMC, and Human Resources.

FINANCIAL IMPACT: Total costs for the three-year period are estimated at \$2,719,062. First year costs estimated at \$929,354 include \$34,500 in start-up costs. The second and third-years are estimated at \$894,854 each. ARMC costs are funded from the County Medical Service Plan (EAD-MCR), Emergency Medical Services – SB 612 (XRN-ACT), Emergency Medical Services AB 75 (RGQ-MCR), and the Children Tobacco Act Protection (EAD-MCR). Employee Benefits Programs are funded by Vision Care (VBB-HRD), the Exempt Medical Reimbursement (XGW-HRD), and Dependent Care. (XYH-ACT).

SUPERVISORIAL DISTRICT(S): All

PRESENTER: Marcel Turner, Director of Human Resources